



In 2019, we believe the U.S. economy and revenues of corporate America will grow. The main factors for this being a weak stock market in the 4<sup>th</sup> quarter of 2018 paired with continued economic growth.

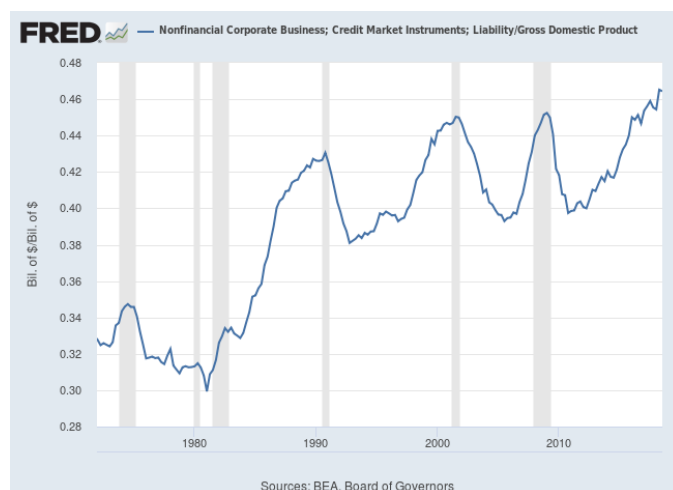
Consumer spending is the single most important driving force of the U.S. economy as it accounts for approximately two-thirds of economic growth. According to William R. Emmons, lead economist with the St. Louis Fed's Center for Household Financial Stability, close to 83 percent of total growth since the U.S. economy began to recover in 2009 has been fueled by household spending. In our estimation, the U.S. consumer appears to be doing well as a whole. Specifically, the employment landscape is favorable for workers from both a jobs availability (the current unemployment level is less than the number of available jobs) and wage growth (climbing since 2012) standpoint. Our view is further augmented by the idea that the typical U.S. household is carrying a reasonable level of liabilities on their collective balance sheets (i.e. consumer debt-to-GDP continues to decline from 100% in 2008 to below 80% today).

While we believe the average company and stock market as a whole will be larger at the end of 2019 vs. 2018, there is some concern that the level of volatility experienced in the 4<sup>th</sup> quarter of 2018 could reappear this year given a variety of the risks we face today.

While difficult to quantify, growing risks related to a trade spat with China or the U.S. government shutdown will continue to pressure the market. On the other hand, as these concerns lesson, the market will most likely rebound. While potentially a net neutral, we take care in avoiding individual investments possibly impacted negatively by these current issues looking at factors such as the changing credit profile of individual companies for example.

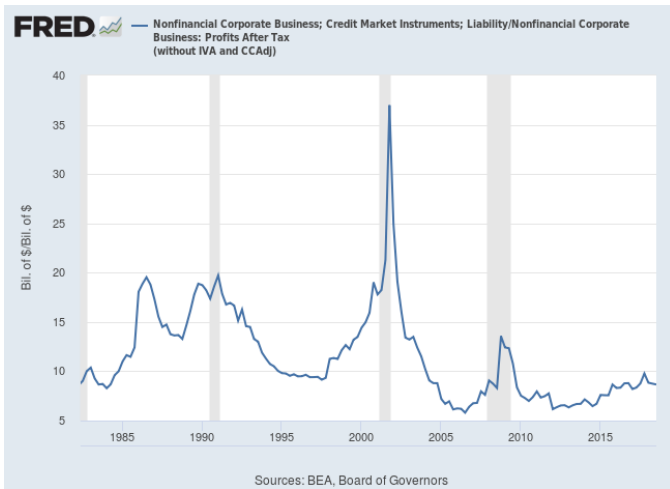
An additional risk is the idea of slowing global economic growth. While this remains a common headline in news outlets, the fears have not yet metastasized into a clear set of confirming data points (i.e. actual growth overall has not slowed and the International Monetary Fund predicts global growth for 2018/2019 to remain in line with 2017). However, China has strong, but declined growth. Given its heft, consequences of a weakened Chinese economy could reduce growth especially for economies who sell an outsized level of goods to China; implying the global outlook could darken from here. Either way, we believe the headlines are a bit ahead themselves.

Finally, we are watching corporate debt. Evidenced by a high Corporate Debt-to-GDP level, U.S. corporations appear to be in the later innings of a debt cycle.

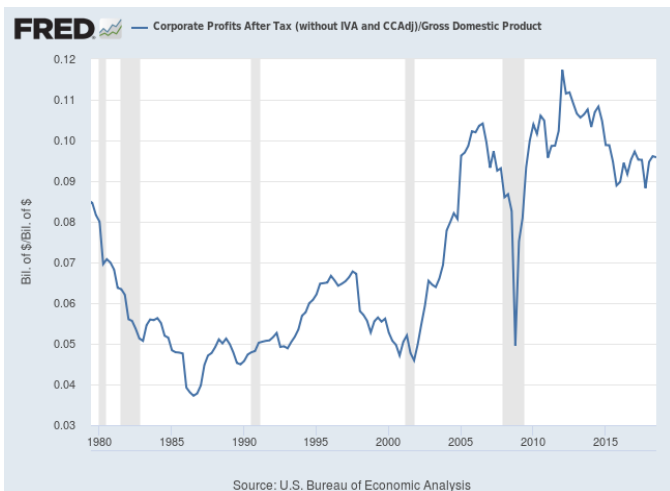


However, companies remain in reasonably solid financial shape; demonstrated by a few items:

1) A Respectable Corporate-Debt-to-Earnings level,

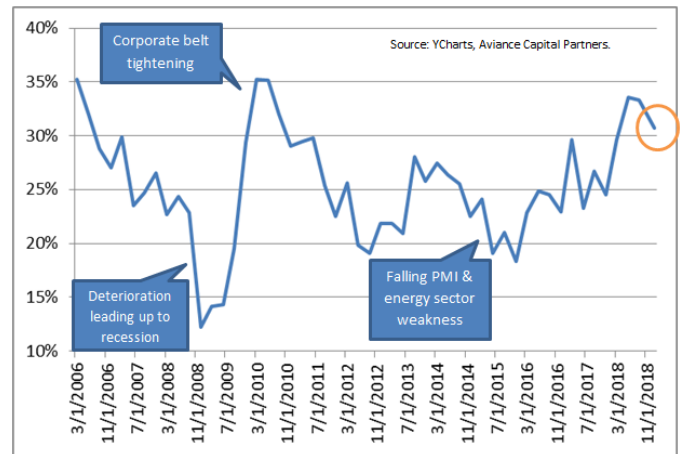


2) Healthy, though declining, profit margins,



3) Additional indicators tasked with measuring such conditions. For example, the Piotroski F-Score, is a system that scores companies from 0 to 9 based on a variety of common financial statement metrics. Companies with a score of 7 or higher, in our view, are very likely to have improving conditions. At the time of this writing, we measure that more than 30% of companies have an F-Score of 7 or higher, better than historically average.

Percentage of companies with F-Score of 7 or higher



For investors with an allocation to the bond market, we believe interest rates will not likely rise meaningfully and could fall (particularly for long-term rates) if economic growth moderates. Additionally, the Federal Reserve appears to have acquiesced to strong market assertions that short-term rates should not go up meaningfully in the near term. Given this background, we do not believe interest rate changes to be a significant risk in 2019. Nevertheless, the mature phase of the corporate bond market leads us to keeping a close eye on the risks associated with corporate bonds (i.e. credit risks). On balance, maintaining a higher credit quality portfolio remains a priority for 2019.

In summary, there is plenty to worry about in 2019. However, we remain positive on the market overall given the likelihood of a growing economy and a balanced analysis of the larger issues facing the market today. As a result, we continue to view intermittent market pull backs opportunistically as the year unfolds. We believe investors should continue to place a larger emphasis on their strategic long-term asset allocation given our base case.

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